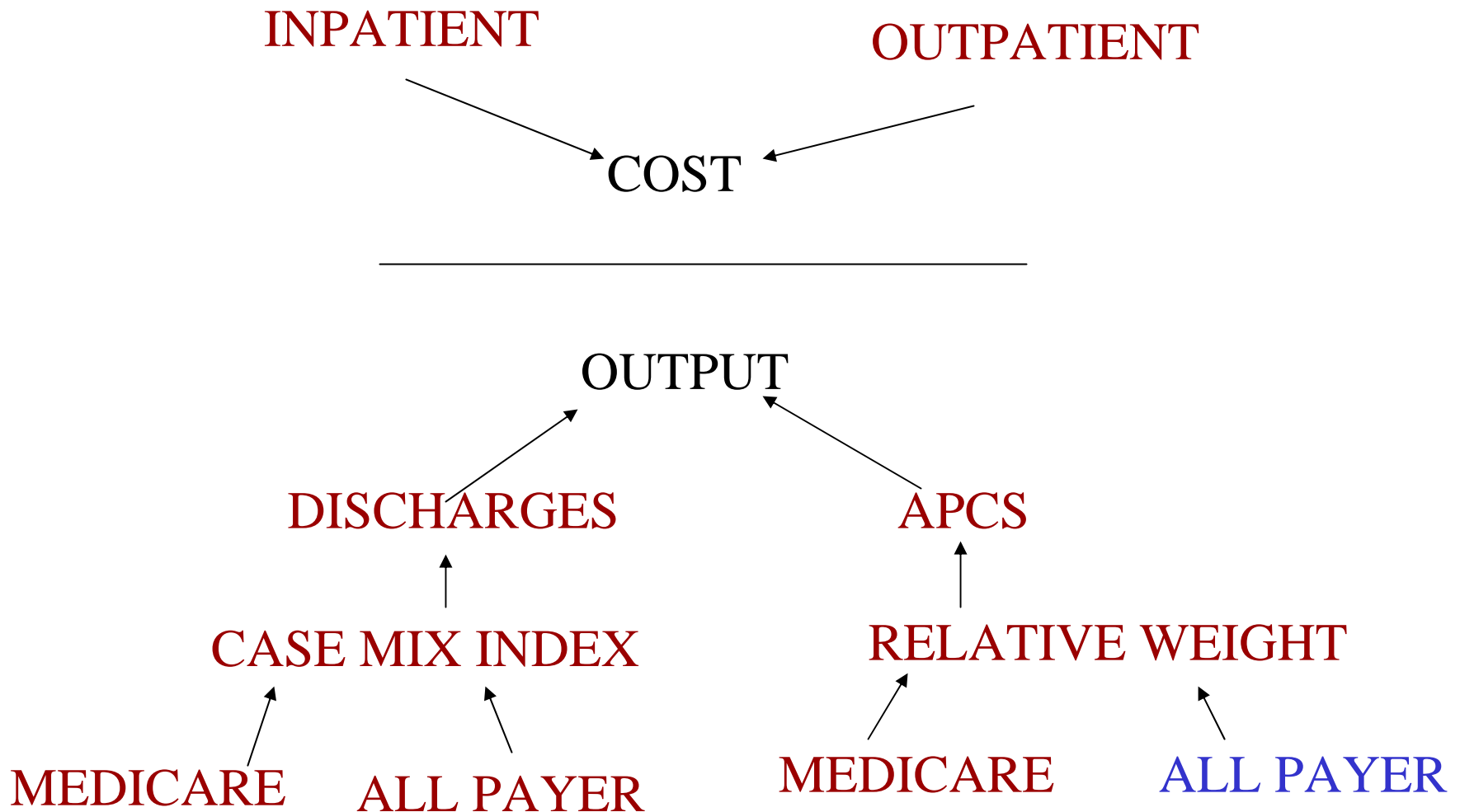


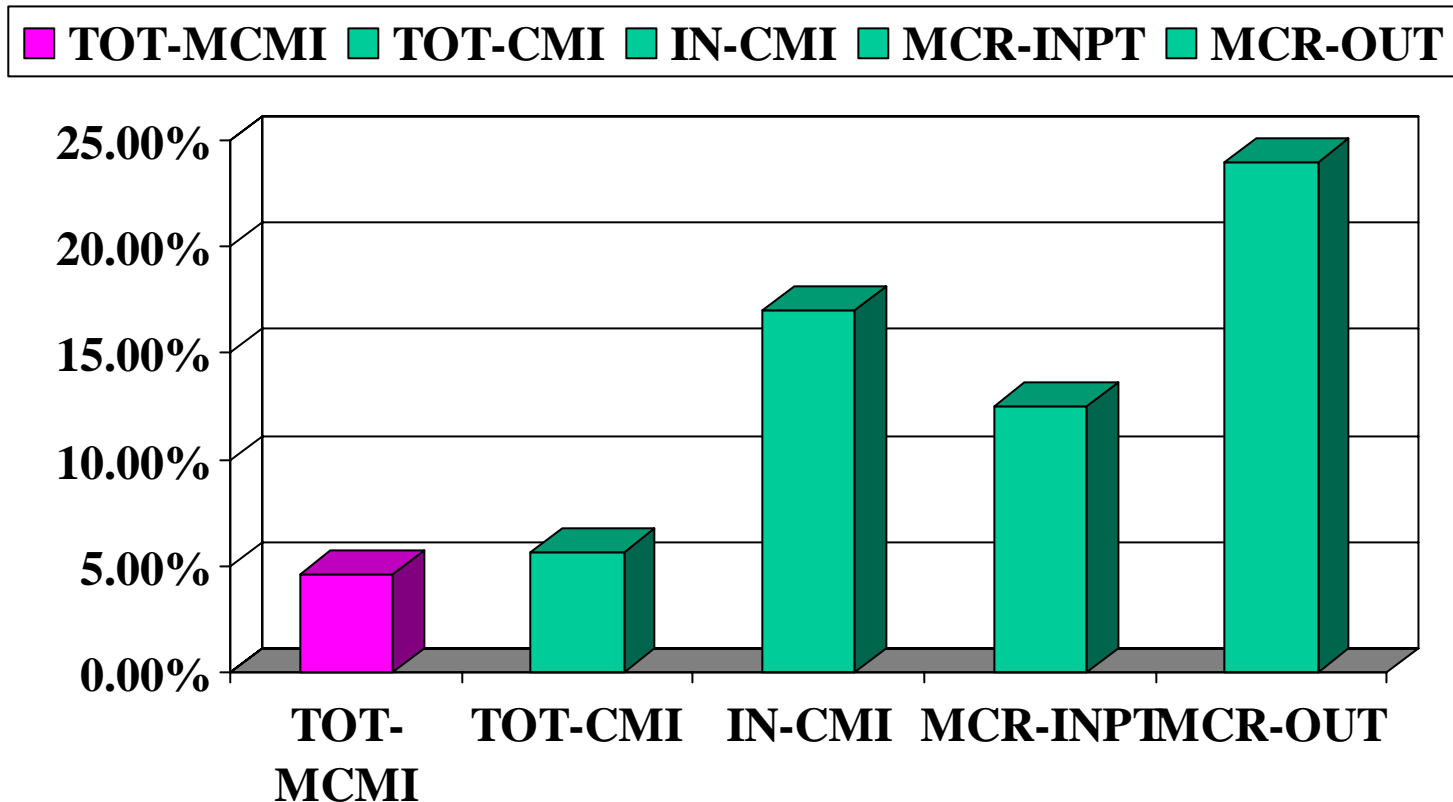
Analysis of Dirigo Voluntary Cost Increase Limits

Presentation by Nancy Kane, D.B.A.
Professor of Health Policy & Management,
Harvard School of Public Health,
to the Commission to Study Maine's Hospitals
September 27, 2004

Limiting Hospital Cost per Unit of Output



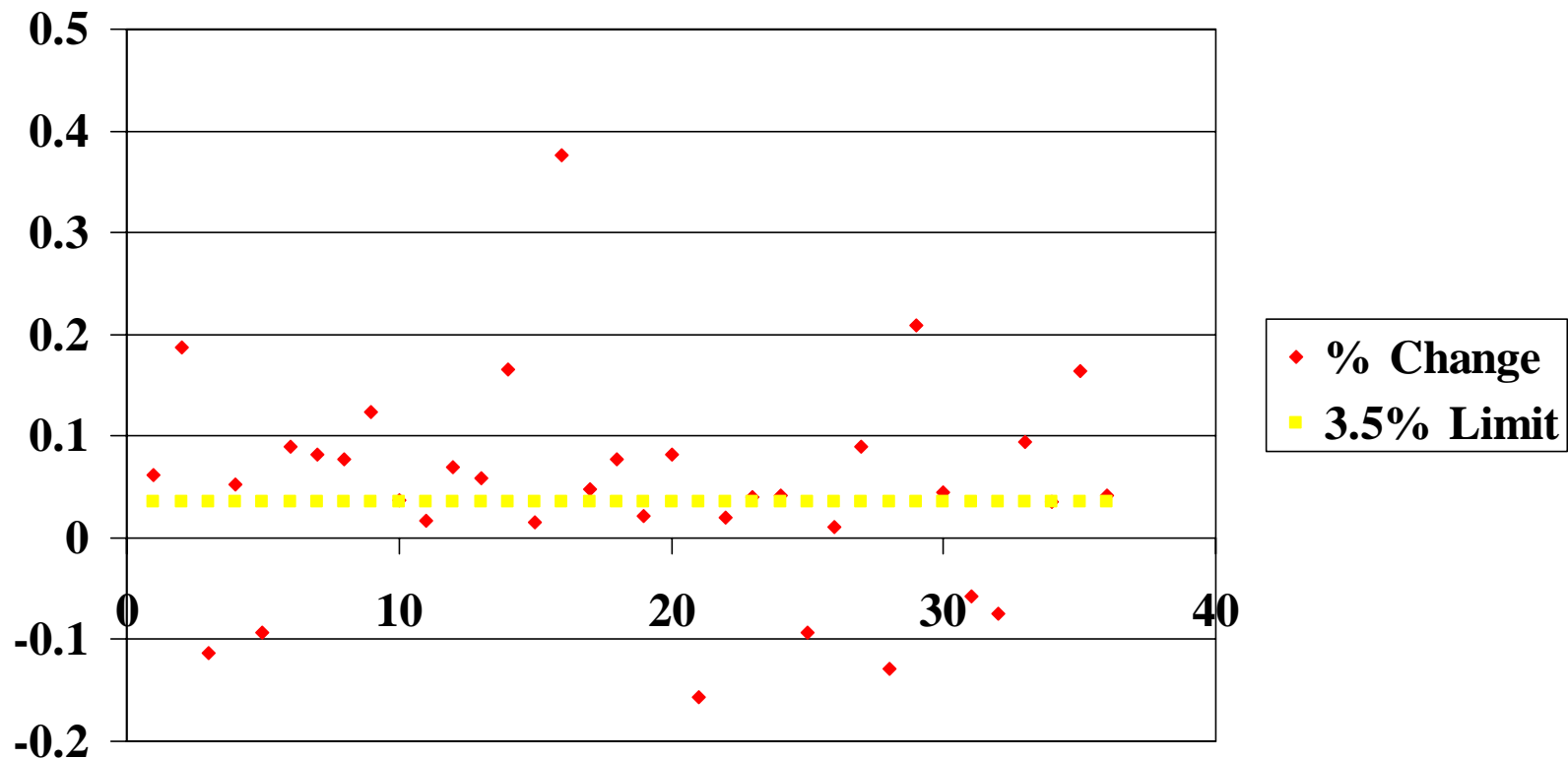
Average Increases in Maine Hospital Cost per Unit of Output, 2001 – 2002, By Different Measures



**IMPACT OF GROSS REVENUE (LIST PRICE) ON COST/UNIT
CALCULATION, MHA-PROPOSED METHOD**

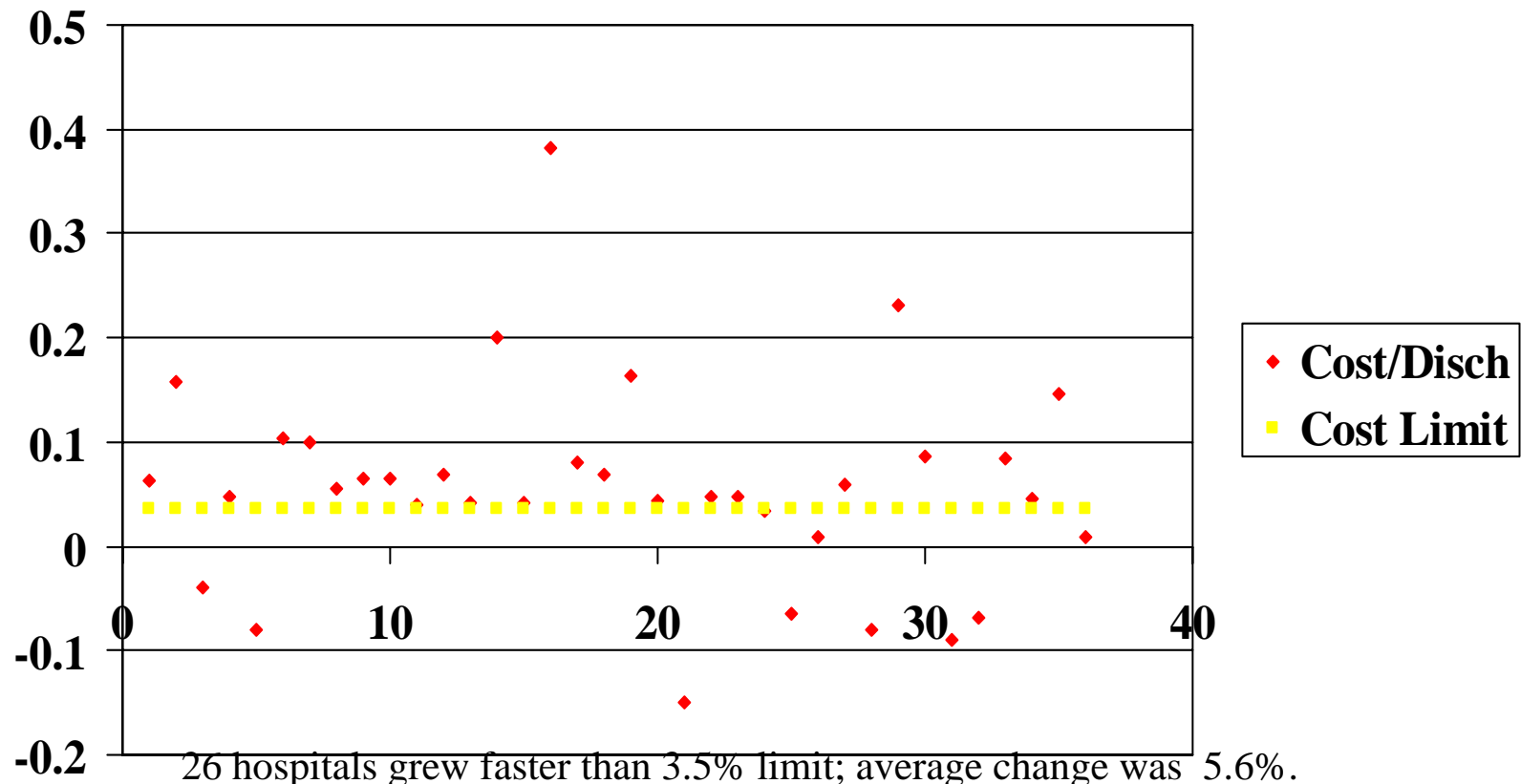
HOSP	TOTAL INPT COST \$000	TOTAL OUTPT COST \$000	INPT MRKUP (CHRG/ COST)	OUTPT MRKUP (CHRG/ COST)	RAW DISCH	CASE MIX INDEX	COST PER ADJ DISCH
A	5,000	5,000	1.75	1.75	1000	1.00	\$5,000
B	5,000	5,000	1.50	2.00	1000	1.00	\$4,285

% Change in Cost per Case Mix and Outpatient-Adjusted Discharge, 2001 - 2002, Medicare Case Mix Index (MHA Method)



23 Hospitals were above the 3.5% limit; the average Change was 4.76%; if constrained by the limit, they would Have saved \$79 million in 2002. Caveat – operating expenses from Audited financials, not MCRS.

% Change in Cost per Case-Mix and Outpatient-Adjusted Discharge, 2001-2002, All Payer Case Mix Index



26 hospitals grew faster than 3.5% limit; average change was 5.6%.

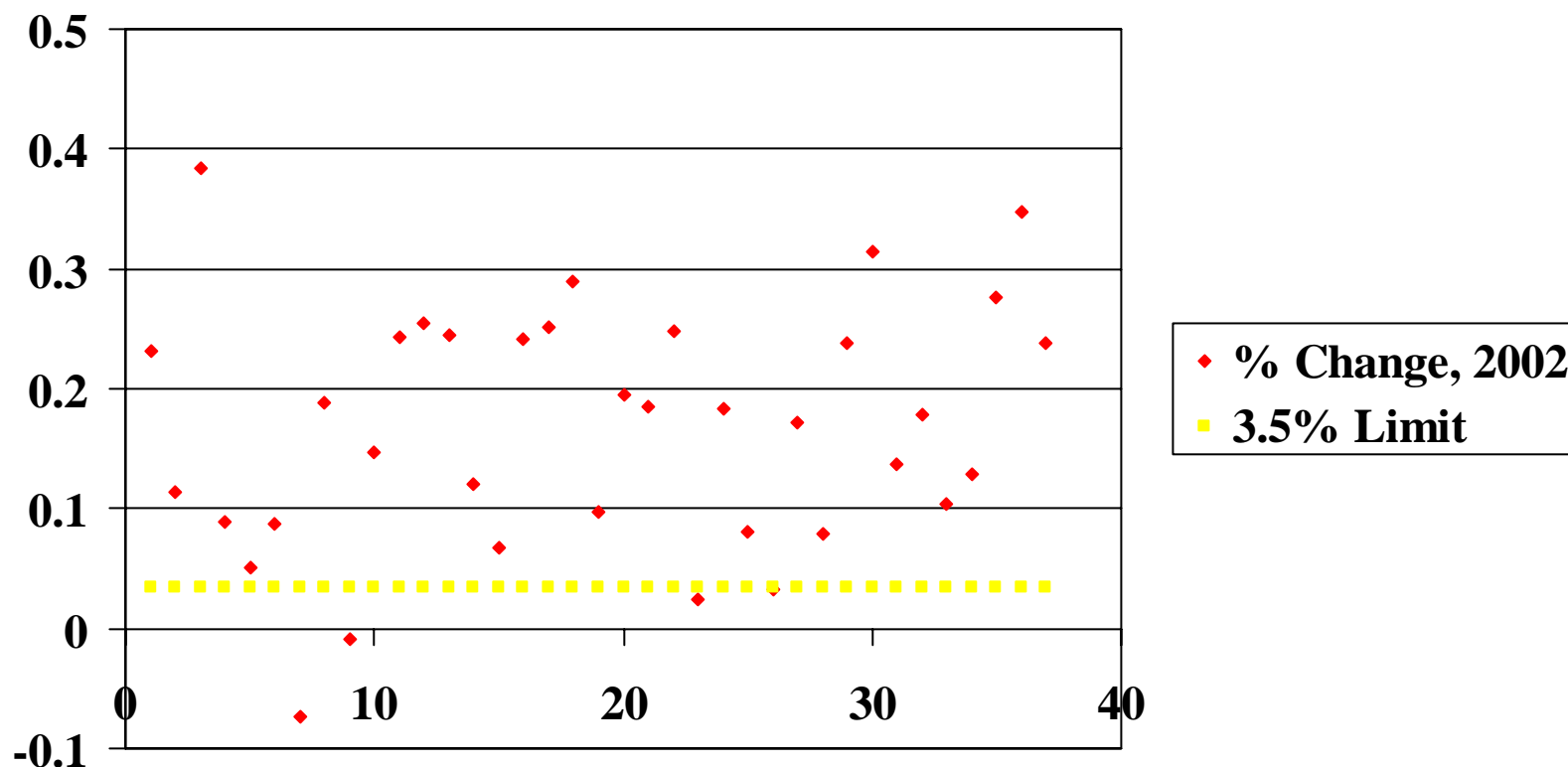
If constrained by the limit, they would have saved \$57.5M in 2002.

Caveat – operating expenses used were from financial statements, not MCRs.

Entities generally matched on the basis of gross revenues (MCR and audits)but

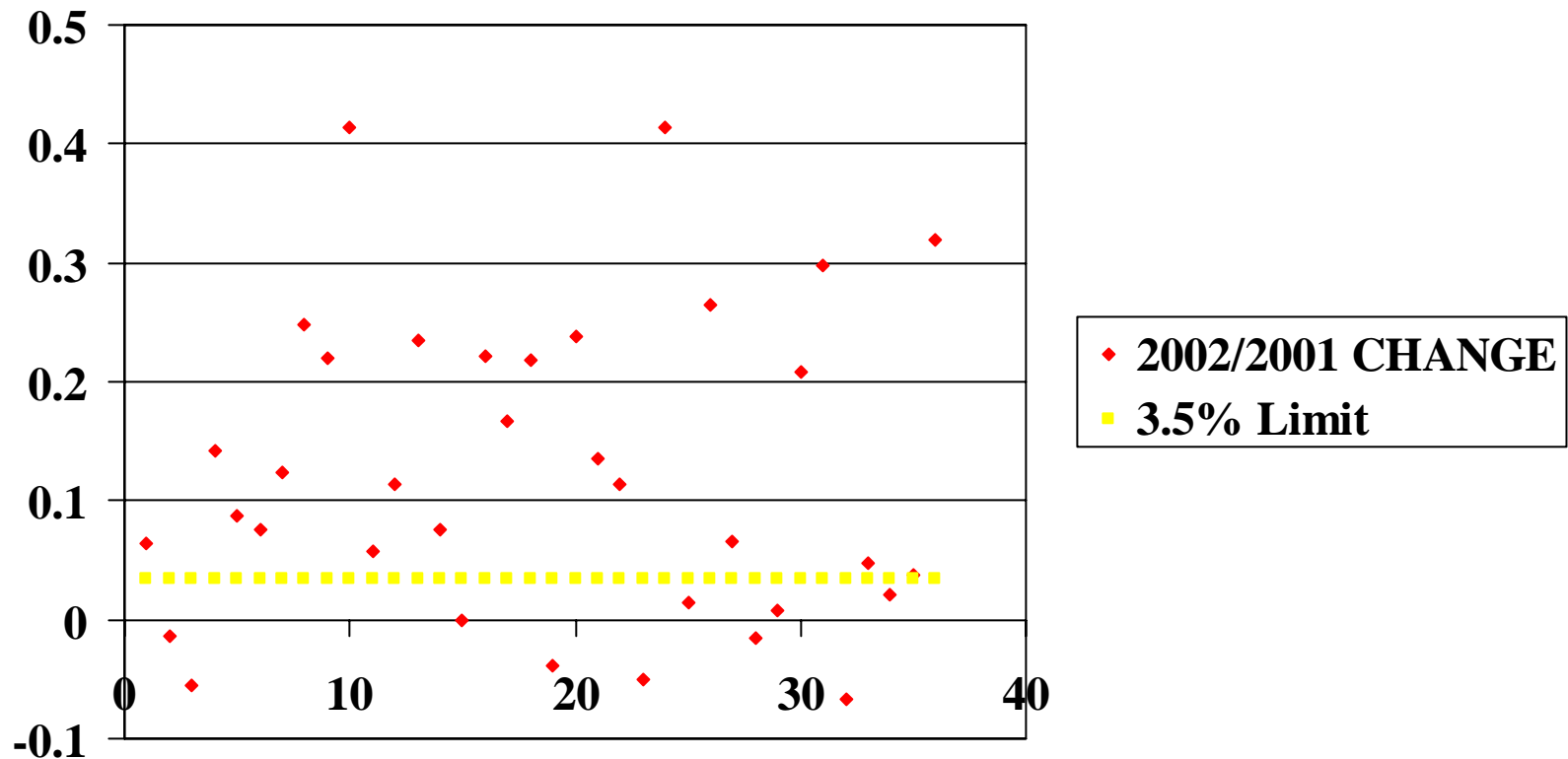
Sometimes off by 2-3M.

% Change in Inpatient Cost per Case-Mix Adjusted Discharge, All Payers, 2002



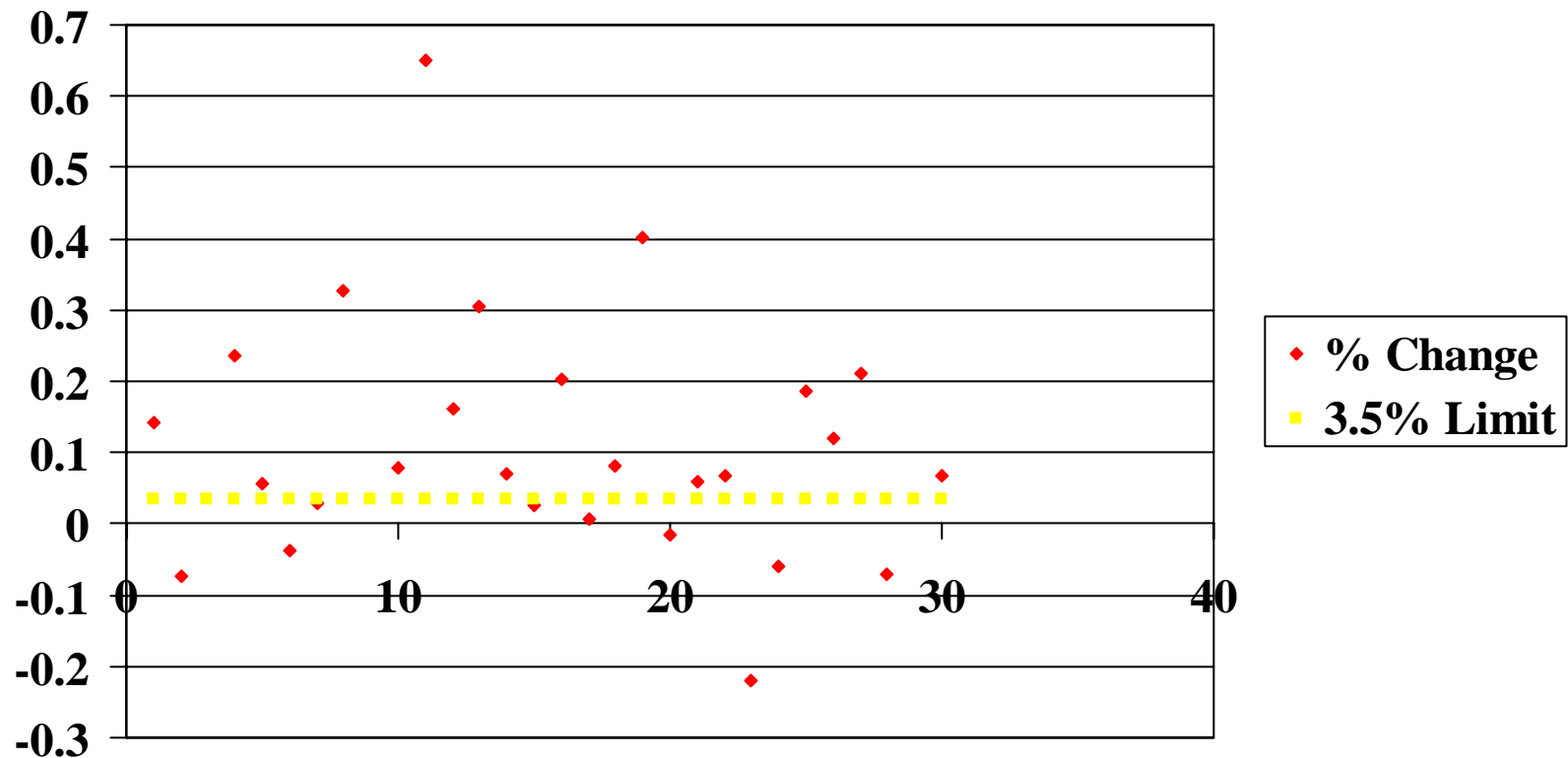
32 hospitals exceeded a 3.5% limit on inpatient cost/cmad; average incr was 17%.
If constrained to 3.5% in 2002, savings would have been \$77.1 M

% Change in Medicare Inpatient Cost per CMAD, 2002



26 hospitals were above the 3.5% change limit; the average change was 12.5%

% Change in Medicare Outpatient Cost per APC, Relative Weight Adjusted, 2002



18 of 27 hospitals with good data exceeded a 3.5% limit on increases
In cost per APC in 2002; average cost increase was 24%

Recommendation for Future Cost/Unit Limit

- Inpatient cost per casemix-adjusted discharge, using all-payer case mix index
- Outpatient cost per APC, adjusted for relative weight : Medicare only (cost and weight) , or all payer if possible (MHDO has detailed outpatient data)